HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Ottawa*

CANADA MORTGAGE AND HOUSING CORPORATION

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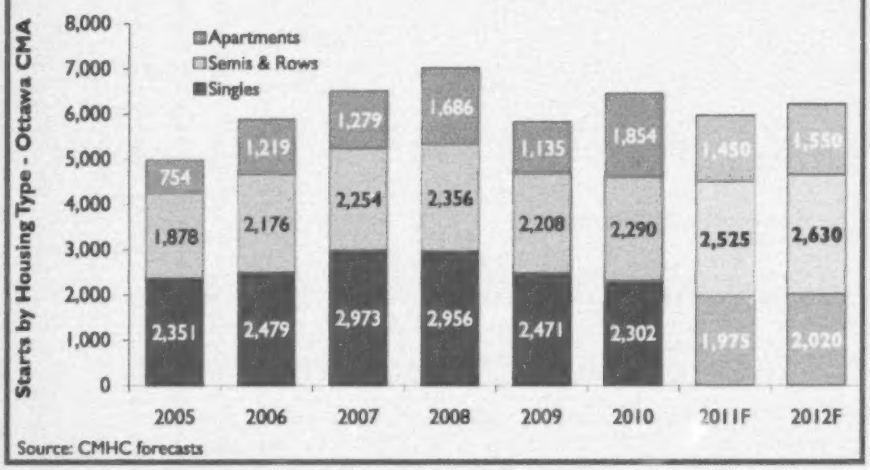
Market at a Glance

- MLS® sales in the Ottawa CMA will moderate, as the region will post a 5.7 per cent decline, while average prices will grow at a slower rate through 2011.
- Home sales and prices will firm later this year into 2012 as improving job creation and migration support housing demand.
- Although new housing starts will experience a slight drop, multiple-family homes will continue to occupy a larger percentage of the new home market due to rising mortgage carrying costs.
- Condominiums will increase in popularity, both in the apartment high-rise and low-rise townhome segment.

Figure 1

Pace of Housing Starts Will Moderate



Source: CMHC forecasts

The forecasts included in this document are based on information available as of April 28, 2011.

*Ontario part of Ottawa-Gatineau CMA

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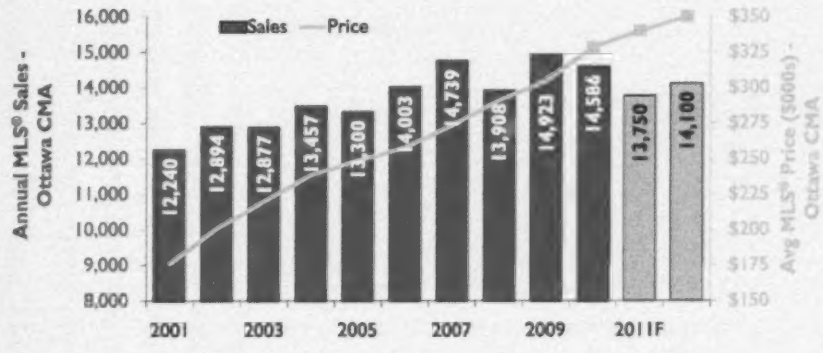
Figure 2

Average Resale Price Continuing Upward Trend



Source: Ottawa Real Estate Board, CMHC Forecast

Resale Market

MLS® Home Sales Will Moderate

After two very strong years, existing home sales in Ottawa will dip slightly in 2011. Existing home sales recovered late last year and early in 2011 as buyers tried to beat rising interest rates and new mortgage rate rule changes.

Going forward into 2011, sales of existing homes are expected to trend lower for two reasons. First, higher anticipated mortgage rates have resulted in a pull forward effect on housing demand. Second, while still at historic lows, moderate raises in mortgage rates will impact carrying costs negatively, thus slightly subduing housing demand. For their part, home prices will continue to rise at a modest pace, which is a strong indication that demand levels will remain healthy and consistent both with recent trends and with underlying local economic fundamentals. Nevertheless, even as Ottawa's housing market remains comparatively affordable and income growth continues to be a solid stabilizing factor, households will see the gap between the required income to buy a home and actual income contract.

Mortgage rates will continue to rise into next year, due to improvements in economic conditions. However, job gains will more than offset higher interest rates, resulting in Ottawa MLS® transactions firming up in 2012.

Balanced Conditions Expected to Remain in Ottawa Housing Market

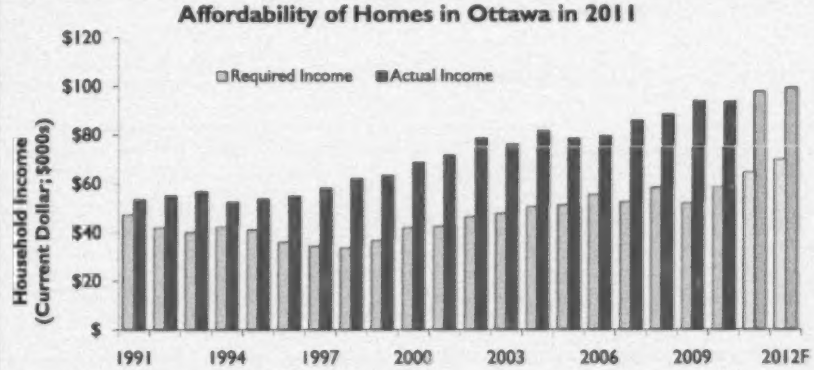
The Ottawa CMA transitioned from a seller's market to a balanced market in 2010 and will remain in that territory in 2011. This will be a result of stable new listings, while existing home sales move lower. Consequently, the region will likely sit at the higher end of a balanced market, as sales regain strength moving into 2012. The average MLS® price will rise slightly higher than the rate of inflation. In 2012, a further 2.9 per cent increase is expected.

Less Expensive Homes to Remain Popular

The last two years have seen an increase in prices that can be partially attributed to growing demand for more modestly priced housing, which included apartments, townhomes and semi-detached dwellings. Moving forward, new mortgage rule changes and rising mortgage carrying costs will continue encouraging a demand shift to less expensive housing.

Figure 3

Affordability of Homes in Ottawa in 2011



Source: CMHC, Statistics Canada, CREA

[1] MLS® is a registered trademark of the Canadian Real Estate Association.

Figure 4

First-time buyers will continue to provide the foundation for added strength in this segment of the market. In addition, some empty-nesters who have raised families in typically larger homes are looking to downsize, and smaller homes, such as condominiums, provide this opportunity. As such, it is apparent that there is increased popularity in living inside Ottawa's Greenbelt and this trend will continue moving forward as both younger households and baby boomers search for amenities typically found in the core of the city.

New Home Market

Moderation in New Residential Construction

After an extraordinary year in 2010, the expectation for the new home market is a slight drop across most housing segments in 2011 before stabilizing in 2012. Nevertheless, new home starts are projected to post numbers consistent with household formation.

With apartments and single-family homes witnessing a decrease, other housing types, including semi-detached and townhomes, will see an increase in starts activity in 2011. Single-family starts will continue to moderate with the market being driven by more affordable types of homes. Nevertheless, apartment starts will moderate slightly after posting the highest level in over 20 years.

Ottawa's new home market stability is due primarily to builders who are cautious and do not typically build on speculation. This will therefore translate into lower inventories of completed and unoccupied homes moving forward. An improvement in overall employment conditions, spill-over demand from the resale market, and declining inventories in the latter part of 2011, will enhance residential construction in 2012.

Higher Gas Prices Raise Downtown Popularity

Some of the factors that contribute to rising demand closer to the downtown area are the increasing gas prices and commuting times. With more people showing interest in purchasing homes in the Core, the popularity of condominium apartments will continue to increase in the coming years. Ottawa witnessed in 2010 the highest number of condominium apartments ever started, with 1,509 units. After that spectacular year, 2011 will moderate but remain popular as almost twenty percent of all housing starts by the end of the year will be of the condominium apartment type.

Going into 2012, Ottawa condo apartment starts will continue to increase as their average price rests below that of an average single-storey home. Since property prices inside the Greenbelt far exceed the price of a similar home in the suburbs, this will result in the trend pointing towards smaller, more affordable homes.

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[2] Required Income is carrying costs on average-priced MLS home divided by 32 per cent. Actual Income is average household income – 2009 to 2011 estimated using actual and forecast changes in average weekly earnings. Carrying costs based on, 10 per cent down payment, average posted fixed 5-year mortgage rates and 25-year amortization from 1991-2006, 40-year amortization for 2007, 35-year amortization after 2007.

Some people who want to live closer to the Core decide to enter the rental market. With few purpose-built rental dwellings being proposed, Ottawa's rental market will continue to remain tight in the next few years. More people entering the homeownership market typically translates into the freeing up of rental units that drives up the vacancy rate. However, without any significant number of rental dwellings being built and increasing demand coming from migration, vacancies are projected to fall in 2011 and to reduce further in 2012. As a result, average two-bedroom rental units will see a rent increase of 1.7 per cent and 2.5 per cent in 2011 and 2012 respectively.

Average Prices of New Homes Continue Upward Momentum

Forecast prices for homes will continue to increase as the new house price index is expected to close with a 3.5 per cent increase in 2011, to reach a slightly higher trend next year. On the semi-detached home front, it is expected that they will break the $400,000 average price benchmark this year to continue increasing with the rate on inflation in 2012.

Economic Overview

Economic Fundamentals to Remain Strong

All of the jobs lost during the economic downturn have been recovered, and Ottawa will continue to post positive employment growth in 2011 and 2012 that will support housing demand. The labour force is expected to grow at a slightly slower pace than employment; as such, the unemployment rate will decrease during both 2011 and 2012.

As Ottawa experiences an improved job market, this will result in the attraction of new immigrants which, in turn, will push net migration up this year and the next. Although migration numbers will increase the labour force, job gains will outpace this increase. Average weekly earnings, used as a proxy for income, will increase by 4.3 per cent in 2011, resulting in a potential improvement in the labour market's participation rate. As well, a relative low unemployment rate coupled with the title of being the best place to live[1] in Canada will continue to draw migrants.

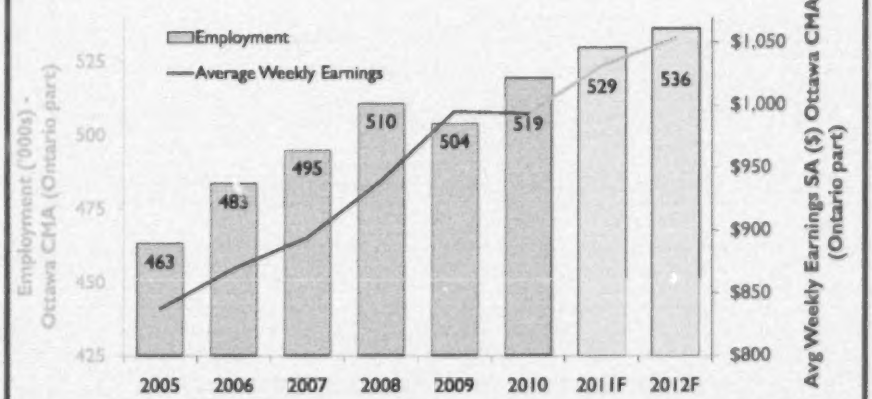
As far as the different sectors of the economy are concerned, construction activity will continue to remain healthy as there are several large projects expected to be completed in the next year. The high-tech sector has demonstrated some strength as well, proving to have a positive impact in the Ottawa area. As this industry is highly trade dependent, it has benefitted from the economic recovery. On the other hand, it is expected that the Public Administration sector will experience some adjustments moving forward. As well, a high Canadian dollar may moderate growth in the Trade sector. As Ottawa is considered a diversified economy, this will enable the housing market to remain stable.

Mortgage Rate Outlook

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the

Figure 5

Employment Will Continue to Rise



Source: Statistics Canada, CMHC Forecast

[1] MoneySense magazine gave Ottawa the title of the best place to live in Canada.

overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Ottawa CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	13,908	14,923	14,586	13,750	-5.7	14,100	2.5
MLS® New Listings	24,196	22,290	25,061	25,000	-0.2	25,100	0.4
MLS® Average Price ($)	290,483	304,801	328,439	340,000	3.5	350,000	2.9
New Home Market							
Starts:							
Single-Detached	2,956	2,471	2,302	1,975	-14.2	2,020	2.3
Multiples	4,042	3,343	4,144	3,975	-4.1	4,180	5.2
Semi-Detached	213	299	362	375	3.6	380	1.3
Row/Townhouse	2,153	1,909	1,928	2,150	11.5	2,250	4.7
Apartments	1,676	1,135	1,854	1,450	-21.8	1,550	6.9
Starts - Total	6,998	5,814	6,446	5,950	-7.7	6,200	4.2
Average Price ($):							
Single-Detached	408,991	406,647	431,729	465,000	7.7	480,000	3.2
Semi-Detached	344,595	458,781	397,873	425,000	6.8	435,000	2.4
Median Price ($):							
Single-Detached	369,900	382,900	419,990	452,350	7.7	466,825	3.2
Semi-Detached	282,500	425,000	347,900	371,500	6.8	380,250	2.4
New Housing Price Index (% chg) (Ottawa-Gatineau)	3.7	1.5	4.0	3.5	-	4.0	-
Rental Market							
October Vacancy Rate (%)	1.4	1.5	1.6	1.2	-0.4	1.0	-0.2
Two-bedroom Average Rent (October) ($)	995	1,028	1,048	1,066	1.7	1,093	2.5
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	510,400	503,600	519,000	529,400	2.0	535,750	1.2
Employment Growth (%)	3.2	-1.3	3.1	2.0	-	1.2	-
Unemployment rate (%)	4.8	5.6	6.5	6.2	-	6.0	-
Net Migration	8,480	9,255	11,914	12,000	0.7	12,500	4.2

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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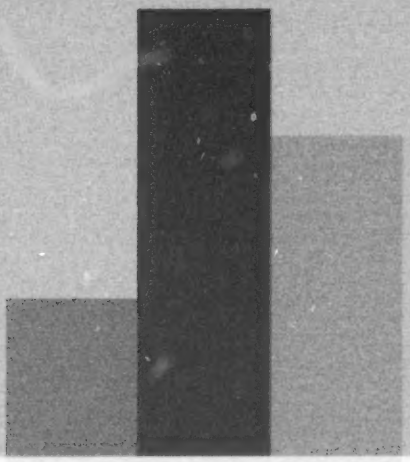

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